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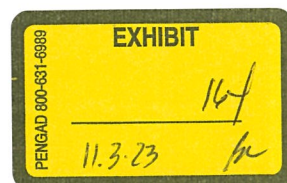
# The Administration's Roadmap to Mitigate Cryptocurrencies' Risks

*By Brian Deese, Arati Prabhakar, Cecilia Rouse, and Jake Sullivan*

2022 was a tough year for cryptocurrencies. In May, a so-called “stablecoin” imploded, prompting a wave of insolvencies. Just months later, a major cryptocurrency exchange collapsed. Many everyday investors who trusted cryptocurrency companies—including young people and people of color—suffered serious losses, but, thankfully, turmoil in the cryptocurrency markets has had little negative impact on the broader financial system to date. While cryptocurrency might be relatively new, the behavior we have seen some cryptocurrency companies exhibit and the risks posed by this behavior are not. As an administration, our focus is on continuing to ensure that cryptocurrencies cannot undermine financial stability, to protect investors, and to hold bad actors accountable.

At President Biden's direction, we have spent the past year identifying the risks of cryptocurrencies and acting to mitigate them using the authorities that the Executive Branch has.

First, experts across the administration have laid out the first-ever framework for developing digital assets in a safe, responsible way while addressing the risks they pose. To be sure, the technologies powering cryptocurrencies may offer ways to make payments faster, cheaper, and safer. But this framework identifies clear risks. For example, some cryptocurrency entities ignore applicable financial regulations and basic risk controls—practices that protect the country's households, businesses, and economy. In addition, cryptocurrency platforms and promoters often mislead consumers, have conflicts of interest, fail to make adequate disclosures, or commit outright fraud. And there is poor cybersecurity across the industry that enabled the Democratic People's Republic of Korea to steal over a billion dollars to fund its aggressive missile program.



Second, agencies are using their authorities to ramp up enforcement where appropriate and issue new guidance where needed. The banking agencies issued joint guidance, just this month, on the imperative of separating risky digital assets from the banking system. Agencies across government have launched—or are now developing—public-awareness programs to help consumers understand the risks of buying cryptocurrencies. We encourage regulators to continue these efforts, including those designed to address and limit financial institutions’ exposure to the risks of digital assets.

But the events of the past year underscore that more is needed. Agencies have redoubled their efforts to fight fraud, including the proliferation of false or misleading claims about crypto assets being insured by the FDIC. And while the United States is already a global leader in fighting money laundering and terrorist financing, enforcement agencies are devoting increased resources to combatting illicit activities involving digital assets. In the coming months, the Administration will also unveil priorities for digital assets research and development, which will help the technologies powering cryptocurrencies protect consumers by default.

Congress, too, needs to step up its efforts. For example, Congress should expand regulators’ powers to prevent misuses of customers’ assets—which hurt investors and distort prices—and to mitigate conflicts of interest. Congress could also strengthen transparency and disclosure requirements for cryptocurrency companies so that investors can make more informed decisions about financial and environmental risks. To aid law enforcement, it could strengthen penalties for violating illicit-finance rules and subject cryptocurrency intermediaries to bans against tipping off criminals. It could fund greater law-enforcement capacity building, including with international partners. And it could limit cryptocurrencies’ risks to the financial system by following the steps outlined by the Financial Stability Oversight Council in its recent report, including addressing the risks of stablecoins.

While congressional action in these areas would be welcome, Congress could also make our jobs harder and worsen risks to investors and to the financial system. Legislation should not greenlight mainstream institutions, like pension funds, to dive headlong into cryptocurrency markets. In the past year, traditional financial institutions’ limited exposure to cryptocurrencies has prevented turmoil in cryptocurrencies from infecting the broader financial system. It would be a grave mistake to enact legislation that

reverses course and deepens the ties between cryptocurrencies and the broader financial system.

The Administration wholeheartedly supports responsible technological innovations that make financial services cheaper, faster, safer, and more accessible. Yet to realize these benefits, new technologies need commensurate safeguards. Safeguards will ensure that new technologies are secure and beneficial to all—and that the new digital economy works for the many, not just the few. To put the right safeguards in place, we will keep driving forward the digital-assets framework we’ve developed, while working with Congress to achieve these goals.